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1959

MERCANTILE STORES COMPANY, INC.

AND
SUBSIDIARIES

Annual Report

FOR THE YEAR ENDED JANUARY 31, 1960

MERCANTILE STORES COMPANY, INC.

LIST OF OUR STORES

BACON'S (estab. 1845)
- Louisville, Ky.
  - St. Matthew's
  - Shively
  - Jeffersonville, Ind.

CASTNER-KNOTT (estab. 1898)
- Nashville, Tenn.
  - Greenhills
  - Shelbyville

CREWS-BEGGS (estab. 1888)
- Pueblo, Colo.

O. J. DE LENDRECIES (estab. 1879)
- Fargo, North Dakota

GAYFER'S (estab. 1879)
- Mobile, Ala.
  - Springdale (opened Feb., 1960)
  - Pensacola, Fla.

GLASS BLOCK (estab. 1887)
- Duluth, Minn.

HENNESSY'S (estab. 1885)
- Butte, Mont.
  - Livingston

JONES (estab. 1887)
- Kansas City, Mo.
  - Troost Ave.
  - Independence
  - Muskogee, Okla.
  - Pittsburg, Kans.
  - Prairie Village, Kans.

JOSLIN'S (estab. 1873)
- Denver, Colo.
  - Englewood
  - Lakewood
  - Merchants Park
  - Aurora
  - Greeley
  - Boulder

LAZARUS (estab. 1889)
- Wilkes-Barre, Pa.

LION (estab. 1857)
- Toledo, Ohio
  - Westgate
  - Bowling Green
  - Fremont

MACDOUGALL'S (estab. 1875)
- Seattle, Wash.
  - Wenatchee
- *Appliance Stores:*
  - West Seattle
  - Kirkland
  - Lake City
  - Greenwood Ave.
  - South Seattle

MCALPIN'S (estab. 1852)
- Cincinnati, Ohio
  - Cherry Grove
  - Kenwood
  - Western Hills
  - Middletown

MONTGOMERY FAIR (estab. 1868)
- Montgomery, Ala.
  - Eastbrook
  - Opelika

PEOPLES (estab. 1888)
- Tacoma, Wash.
  - Port Angeles
  - Lakewood
  - Yakima
  - South Tacoma

THE RIGHT HOUSE (estab. 1843)
- Hamilton, Ontario, Canada
  - Brantford
  - Galt

ROOT'S (estab. 1856)
- Terre Haute, Ind.
  - Sullivan
  - Robinson, Ill.
  - Paris, Ill.

J. B. WHITE (estab. 1874)
- Augusta, Ga.
  - Columbia, S. C.
  - Aiken, S. C.

●

Represented in the markets by
MERCANTILE STORES COMPANY, INC. (N. Y.)
(A wholly owned subsidiary company)
128 W. 31st Street, New York, N. Y.
Cable Address: *Merstore*

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

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F. K. BRADLEY
MORGAN A. CASEY
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HAROLD W. JOCKERS
F. G. KINGSLEY
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ROGER MILLIKEN
GEORGE S. MOORE
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Stock Transfer Agent
CHEMICAL BANK NEW YORK TRUST COMPANY
100 Broadway
New York

Registrar of Stock
FIRST NATIONAL CITY TRUST COMPANY
22 William Street
New York

FINANCIAL HIGHLIGHTS

IN BRIEF

	1959 (Year Ended Jan. 31, 1960)	1958 (Year Ended Jan. 31, 1959)
Sales	$167,799,529	$157,915,790
Sales Increase Percentage	6.3%	
Profit Before Income Taxes	$10,375,430	$8,709,061
Percent to Sales	6.2%	5.5%
Net Profit	$4,985,430	$4,219,061
Profit Per Share	$3.38	$2.88
Dividends Paid:		
Per Share	$1.65	$1.65
Percentage of Profit Paid Out	49%	57%
Book Value Per Share	$34.37	$32.71
Working Capital	$32,753,039	$26,076,197

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware
April 15, 1960

To the Stockholders of
Mercantile Stores Company, Inc.:

This is our forty-first annual report to stockholders. It covers the fiscal year ended January 31, 1960. Included in the report are the financial statements of the Company, together with report of our auditors, Arthur Andersen & Co., independent public accountants.

The net profit of $4,985,430 was the best in the last nine years. Earnings per share of $3.38 were 50 cents per share better than the year before. About 22 cents of this increase was the result of changing from "accelerated" depreciation to "straight-line" depreciation. This is explained more fully below. Sales for the year aggregated $167,799,529 which represented an increase of 6.3% over the year before.

Profit

Profit before income taxes amounted to $10,375,430. This was $1,666,369 higher than the year before. The net profit at $4,985,430 was $766,369 higher than the preceding year.

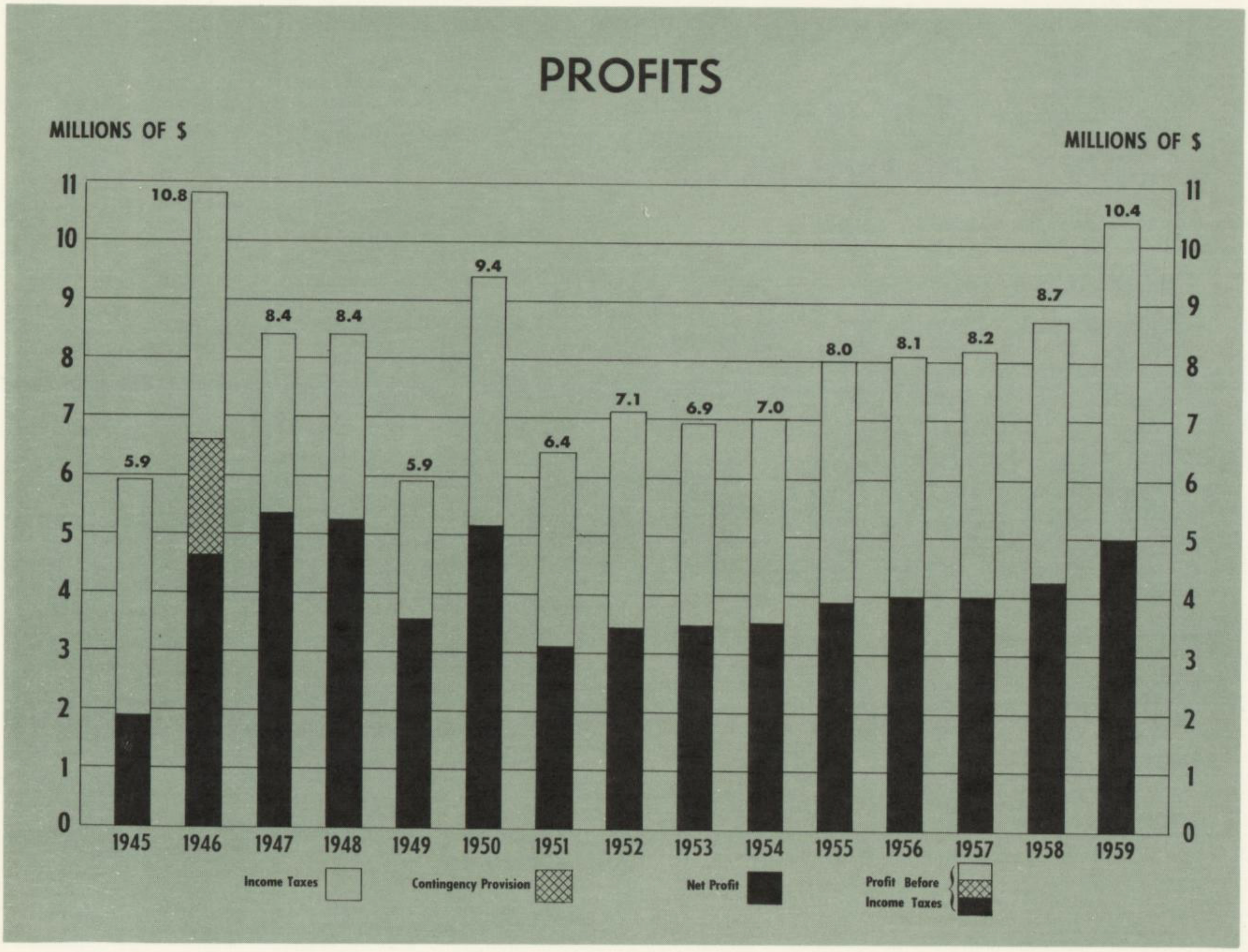
The profit per share this year was increased by about 22 cents per share by a change in the handling of depreciation. The depreciation charged in the accounts this year is on the so-called "straight-line" basis. In prior years, the depreciation reflected in the operations was what is known as "accelerated" depreciation. The Company changed its practice on this mainly because it is becoming increasingly difficult to make fair comparisons between our results and the results of other companies in our industry. Practically all of the leading department store companies use straight line depreciation in their reports. Our Company has been using accelerated depreciation since 1954. The resulting difference in per share earnings has grown wider each year — meaning our profit per share earnings were lowered by use of accelerated depreciation by approximately the following amounts: 2 cents in 1954, 6 cents in 1955, 8 cents in the next year, then 14 cents, and then 18 cents for the year ended January 31, 1959. Had we not changed, the difference would have been about 22 cents for the year ended January 31, 1960. Although we have pointed out this difference in each annual report, management has concluded the amount involved has reached the point where it is material. Many people forget or ignore the "explanation" and merely remember or consider the reported profit. Accordingly, to make sure no one is misled, we have changed the method. (No change has been made in handling depreciation in tax returns. This change has no effect of any sort on the taxes we pay.) No retroactive change in depreciation has been made prior to February

1, 1959 — meaning the year ended January 31, 1960 has been changed as outlined above, but no change has been made in depreciation of prior years.

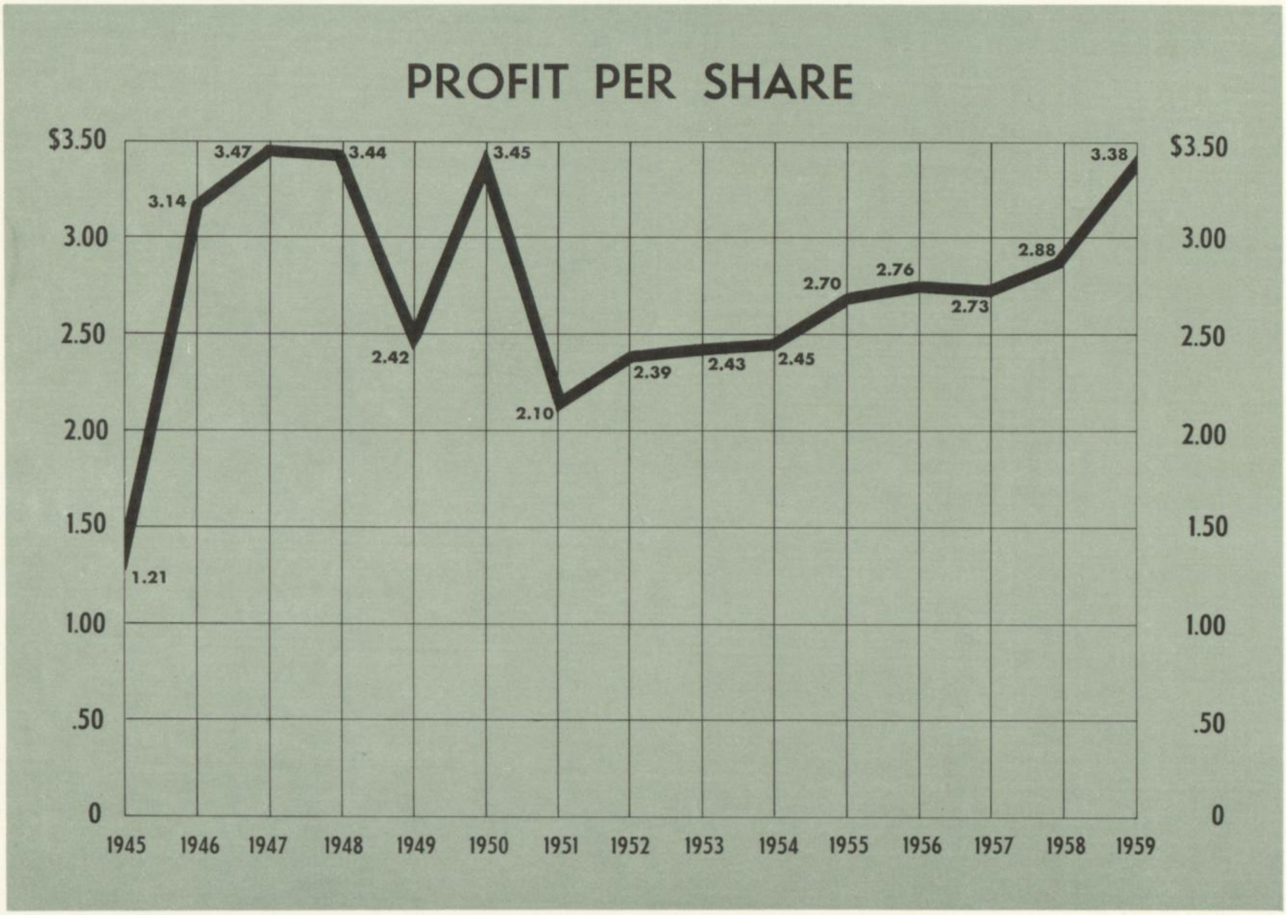
There was an increase in earnings of about 28 cents per share, apart from the depreciation change. The sales increase of about $10,000,000 was, of course, the main factor in the increased profit. Our gross margin was up slightly over a year ago, but the expense percentage crept up a small fraction also. Markdowns were even with a year ago. The pre-tax profit percent to sales was 6.2% compared with 5.5% a year ago.

The control of expenses is a never ending battle in our business. It is contrary to our thinking that the answer to this problem is to increase the mark-up on the merchandise to offset expense increases. We believe it to be of utmost importance that we continue to sell goods at as low a price for comparable value, as do the strongest competitors operating in our communities. The slight increase in our gross margin this past year was mainly the result of achieving some progress in selling higher priced goods, on which the profit margin is wider.

The profit before income taxes and the final net profit for each of the last fifteen years is shown in the chart below.



The net profit per share of common stock amounted to $3.38 for the year. The net profit per share for each of the last fifteen years is shown in the chart below. In each case, the per share earnings have been computed on the number of shares outstanding at the end of the given year. There have been only minor changes in the number of shares outstanding during the last fifteen years.



Sales

Sales for the year were again at an all time high for our Company. This is the fifth year in a row in which a new sales record has been made. During the last three year span, about $19,000,000 has been added to the Company's annual volume. Sales for the year amounted to $167,799,529. The sales increase over the preceding year was 6.3% or about $10,000,000. Sales of comparable stores (stores which were in operation both years) reflected an increase of 4.0%.

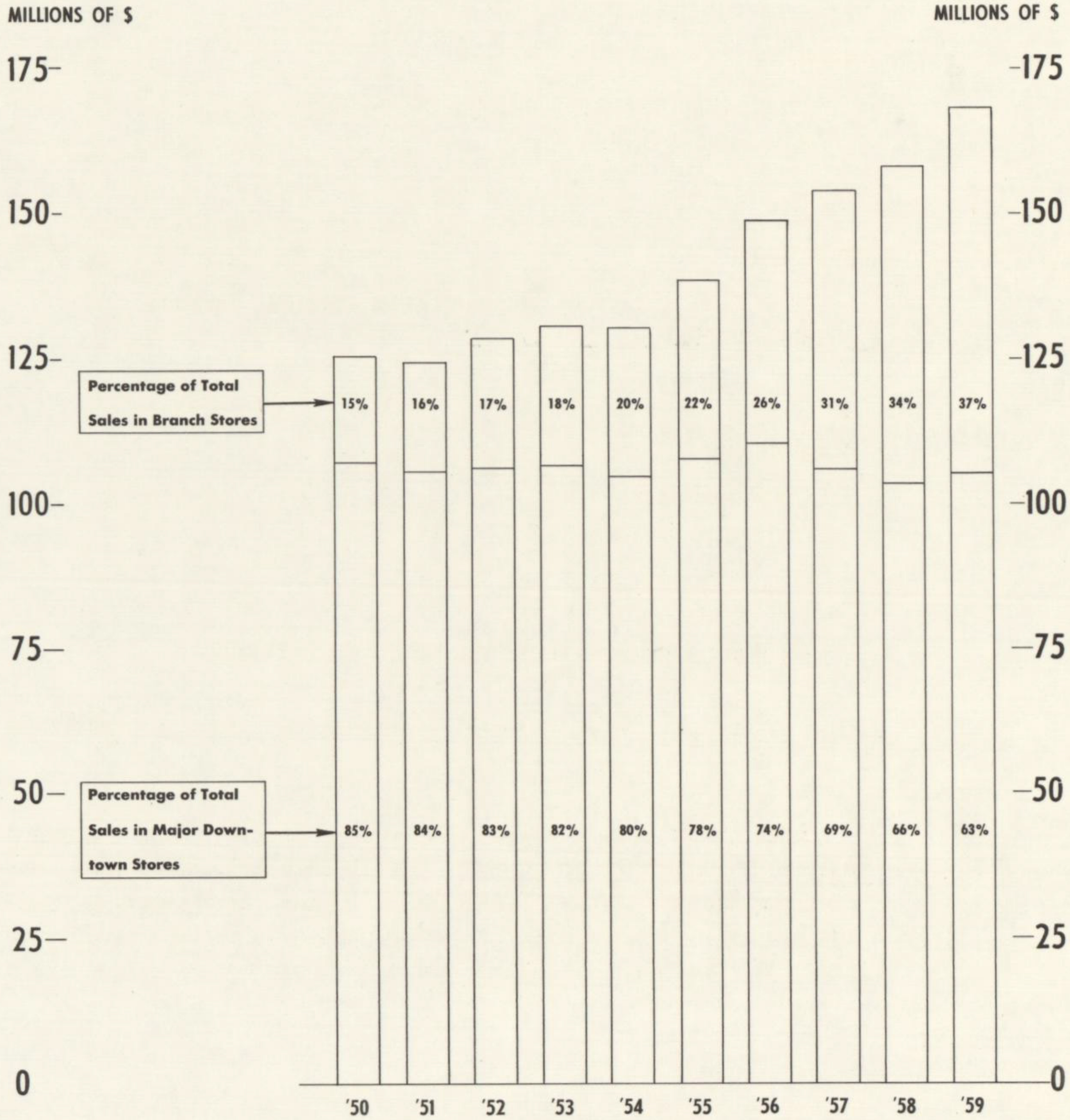
Below is given the approximate geographical distribution of our stores:

	Percentage of Total Company Sales
Middle West (Including the cities Kansas City, Terre Haute, Duluth, Cincinnati, Toledo and Fargo)	45%
South (Including the cities Louisville, Nashville, Montgomery, Augusta and Mobile)	29%
Far West (Including the cities Denver, Butte, Seattle, Tacoma and Pueblo)	20%
Pennsylvania (Wilkes-Barre)	2%
Canada (Including the cities Hamilton, Brantford and Galt)	4%
	100%

Sales in our branch stores are increasing steadily. The Company started its expansion program in 1944. Each year since then, the Company has added one or more stores. These branch stores are usually located in the suburbs of a city in which we operate a downtown store. We now have 40 branch stores.

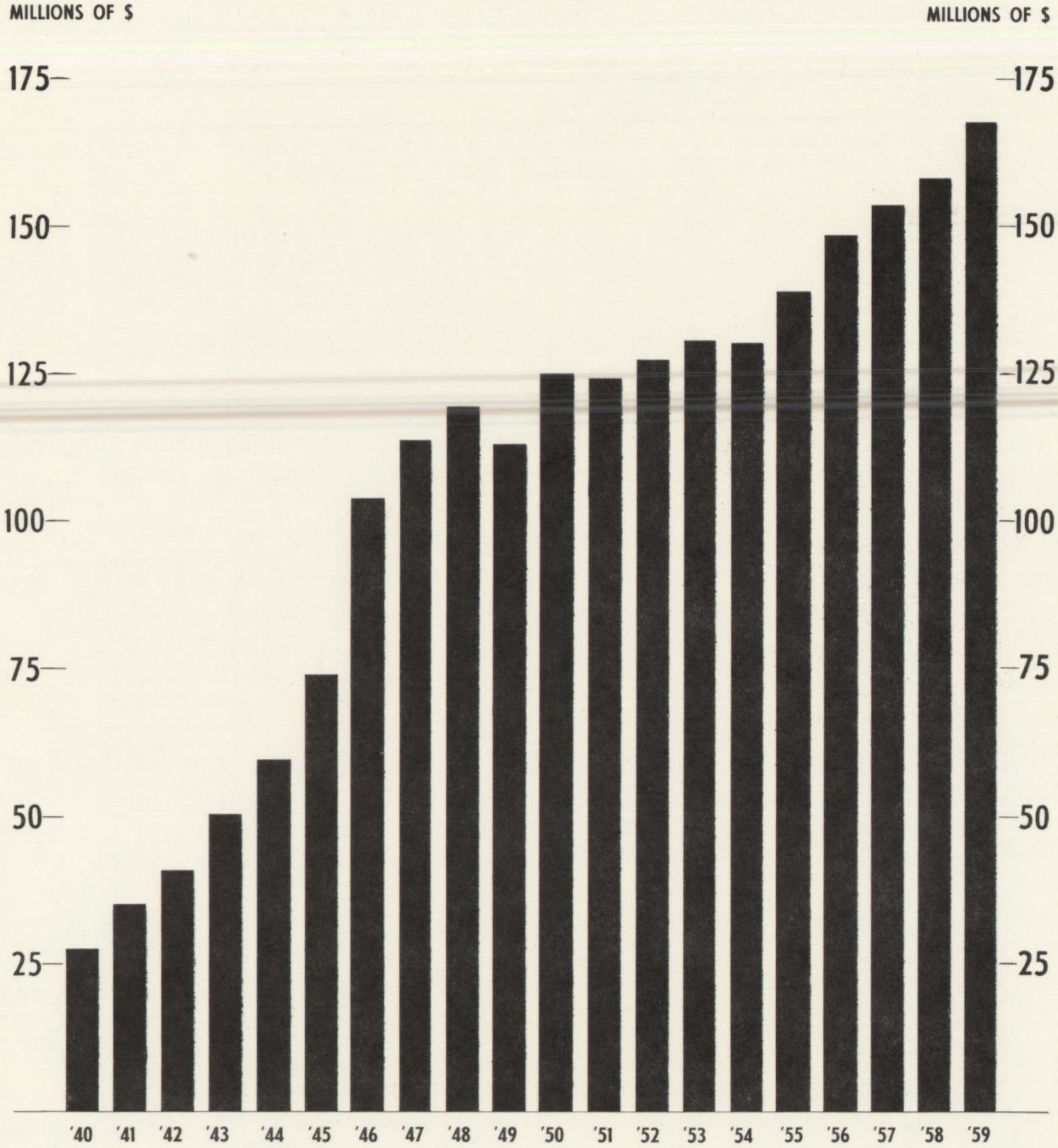
Below is a chart which shows how this part of our business has grown in the last eleven years. Back in 1949, sales in branch stores represented only 14% of total Company volume. As shown in the chart, that percentage has increased each year since 1949 and for the year just closed, over a third of our business (37%) was in branch stores. The dollar volume from branch stores was about $62,500,000 last year.

GROWTH OF SALES IN BRANCH STORES



The total Company sales for the past twenty years are shown in comparative form in the chart below:

SALES DURING PAST 20 YEARS



Dividends

Dividends amounting to $1.65 per share were paid during the year — the same rate as the preceding year. The four regular quarterly dividends plus the year-end extra were as follows:

	Date Paid 1959	Amount Per Share
Quarterly	March 14	$ .35
Quarterly	June 15	.35
Quarterly	September 15	.35
Quarterly	December 15	.35
Year-end Extra	December 29	.25
		$1.65

The five dividends paid in 1959 amounted to $2,423,777. The dividends paid for the year were equal to about 49% of the net profit for the year. For the past ten years, the dividend pay-out has been about 51% — net profits for the ten years totaled about $39,900,000 and the dividends paid during those ten years totaled about $20,300,000.

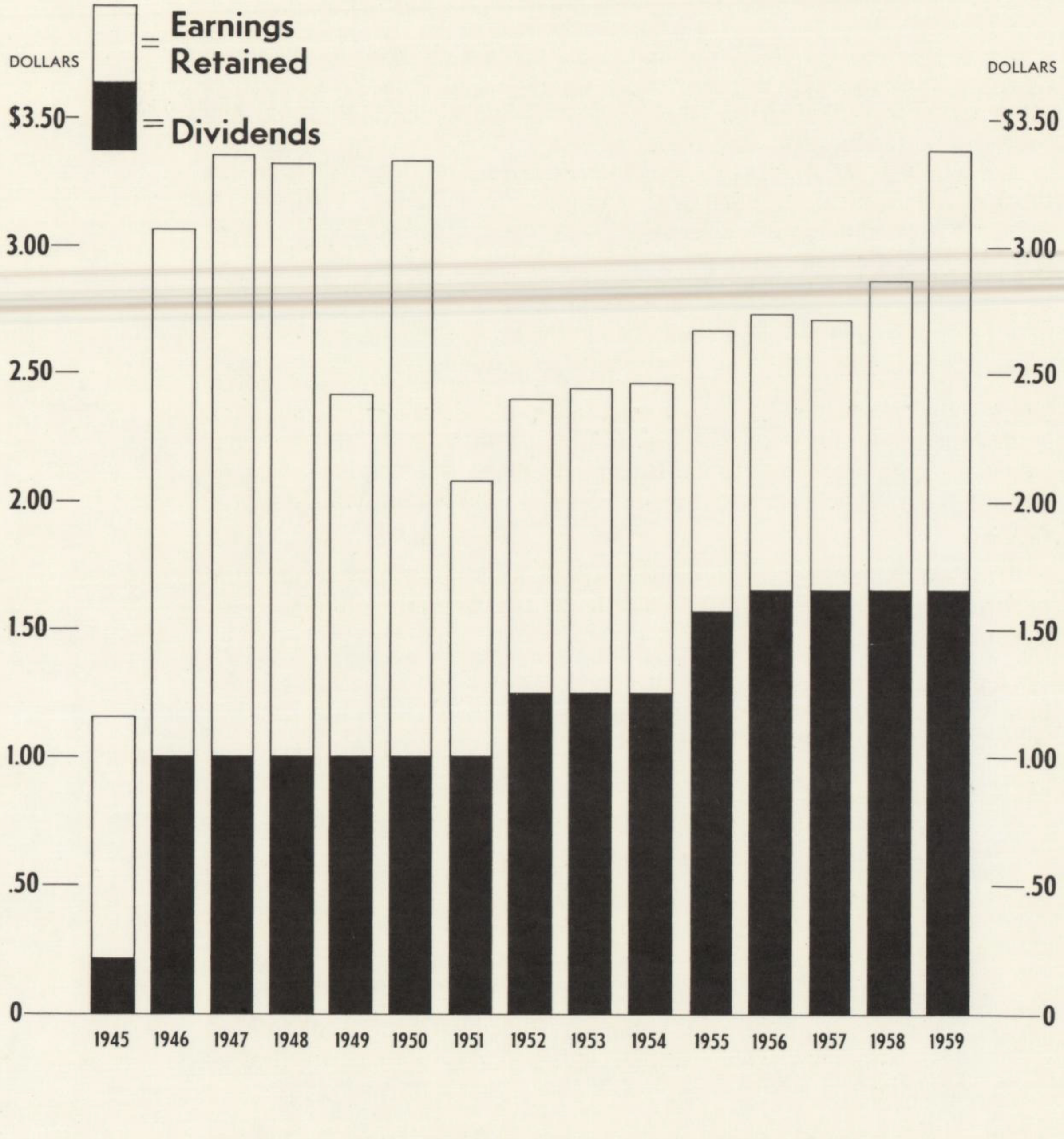
The year just closed is the twentieth consecutive year during which dividends have been paid on the common stock without interruption. The Company has operated at a profit for the last twenty-one years. During the past twenty years there never has been a year in which the dividend was less than the preceding year. The rate of dividends has been gradually rising during those twenty years as shown in the following summary:

$ .20	for the first two years
.25	for the next four years
1.00	for the next six years
1.25	for the next three years
1.55	for the next year
1.65	for the last four years

There were 4,722 stockholders in our Company at January 31, 1960.

The earnings, dividends and earnings retained per share of common stock for the last fifteen years are shown in the chart below:

EARNINGS, DIVIDENDS, AND EARNINGS RETAINED PER SHARE OF COMMON STOCK



Inventory

The inventory of merchandise at the end of the year amounted to $27,429,533, an increase of $2,866,858 over the preceding year. Of this increase, $1,064,046 represented merchandise in new stores not in operation a year ago. Inventories in comparable stores were about 7½% higher than a year ago.

Expansion

Since our report to stockholders of a year ago, we have opened two new branch stores and moved a third store to a new larger building.

In September, 1959 the Company opened a new store in suburban Cincinnati, Ohio. This store operates under the McAlpin name and is identified with our McAlpin store in downtown Cincinnati which has been operating for over one hundred years. The new store is located in a new shopping center, in the Cherry Grove section. This is our third branch store in suburban Cincinnati.

In November, 1959 we changed the location of our McAlpin store in Middletown, Ohio. Formerly, our store was located in the downtown section. The new store is in a new building in a shopping center. The new store quarters are more than double the size of our former store.

In February, 1960 we opened an attractive branch store in suburban Mobile, Alabama. This store operates under the Gayfer's name and is identified with our Gayfer's store in downtown Mobile. Gayfer's has won top acceptance in Mobile during its more than eighty years of operation. Our new store is located in the new Springdale shopping center.

It is estimated that the three new stores described above should add between $6,500,000 and $8,000,000 to the annual volume of the Company.

The Company expects to continue its expansion in the future. We plan to open three new stores during the next eighteen months, and to substantially enlarge another store as follows:

Three new stores:

- In suburban Nashville, Tennessee — plan to open in fall of 1960.
- In Canada — near St. Catherine's, Ontario — expect to open in summer of 1961 (originally expected to open in 1960).
- In suburban Columbia, South Carolina — expect to open in summer of 1961.

Enlarging present store:

- Lion Westgate store in suburban Toledo, Ohio — adding an entire new floor (45,000 square feet) — to be finished in 1960.

The above described three new stores plus the enlarging of the one store are estimated to add between $6,000,000 and $8,500,000 to the Company's annual volume.

During the year we closed one small branch store in Bellingham, Washington (annual volume less than $400,000) and one of the small appliance stores (volume under $100,000). The stores in operation at January 31, 1960 are listed on the front page of this report, consisting of 18 major department stores, 39 branch stores and 5 small appliance stores. The five appliance stores are a relatively small part of our business — annual volume for the total of all five stores is under $450,000.

Additions and Improvements to Physical Properties

The Company spent $4,618,077 during the year for land, buildings and fixtures. Under sale lease-back arrangements covering two new stores, the Company was reimbursed to the extent of $2,042,941. This was paid to us by an insurance company as interim payments during the course of construction. Thus, our net investment for the year in physical plant was $2,575,136 ($4,618,077 less $2,042,941).

The total of $4,618,077 (gross expenditures) was:

For new stores	$2,871,726
For modernizing existing properties	1,746,351
	$4,618,077

As shown above, nearly two-thirds of the funds invested for plant — were for new stores. The balance spent for modernizing existing properties included nearly every one of our stores for greater or lesser amounts. Such expenditures included the cost of cash registers, new elevators, new lighting fixtures, display fixtures, etc.

Depreciation charged to operations for the year amounted to $2,389,772. A year ago the depreciation charge was $2,705,735. The current year charge is lower because of the change from "accelerated" depreciation, as explained in the early part of this report.

Apart from the amounts described above, $681,953 was expended during the year (and charged to operations) for repairs and maintenance.

Financing of Expansion

During the last ten years, the Company has invested $45,320,193 in its properties for new stores and improvements, as follows:

Year Ended	Capital Expenditures
January 31, 1951	$ 2,554,076
January 31, 1952	4,080,571
January 31, 1953	1,914,607
January 31, 1954	1,797,935
January 31, 1955	3,368,916
January 31, 1956	4,723,342
January 31, 1957	9,876,679
January 31, 1958	6,440,533
January 31, 1959	5,945,457
January 31, 1960	4,618,077
	$45,320,193

The ten year expansion was financed out of earnings to the extent of $30,000,799; by increase in long term debt for $13,251,453 (ten years ago long term debt was $5,355,000 and currently it is $18,606,453 — increase in 10 years was $13,251,453); and by proceeds from two sale lease-back arrangements for $2,067,941.

Changes During the Year In the Company's Debt

The total debt of the Company was reduced by a small amount ($89,519) during the year. The following summarizes the change:

	At Jan. 31, 1959	At Jan. 31, 1960	Inc. (Dec.)
Current maturities of long term debt (included in current liabilities on the balance sheet)	$ 4,622,995	$ 755,906	($3,867,089)
Long Term Debt (shown on balance sheet below current liabilities)	14,828,883	18,606,453	3,777,570
Total Debt	$19,451,878	$19,362,359	($ 89,519)

During the year $4,518,750 was added to the debt, and $4,608,269 was paid off, with the resulting net decrease of $89,519.

The additions to debt were $4,500,000 and $18,750. The $4,500,000 was the remaining balance of the loan from the Metropolitan Life Insurance Company. This was in accordance with a loan agreement made in January 1959, full details of which were given in our last annual report. To summarize briefly the essential features of the loan agreement — the total loan amounted to $7,500,000 — no repayment of principal for first 5 years — pay off $5,000,000 during last 15 years — last $2,500,000 of loan becomes due at end of 20 years — interest rate 5⅛% per annum.

The small addition to debt of $18,750 was in connection with the purchase of some land for parking. The payment of the purchase price was deferred over three years at the insistence of the seller.

The payments of debt, totaling $4,608,269, were as follows:

On older insurance company loan	$ 250,000
Remaining balance of 3 year term loan from banks	3,900,000
All required payments on mortgages	458,269
	$4,608,269

The payment of $3,900,000 liquidated the balance of the 3 year term loan from banks, negotiated in January, 1957 for the original amount of $6,500,000.

The long term debt of the Company now consists of two loans from Metropolitan Life Insurance Company and mortgages:

	Balance at Jan. 31, 1960
Metropolitan — first loan	$ 2,000,000
Metropolitan — second loan	7,500,000
Mortgages	9,106,453
	$18,606,453

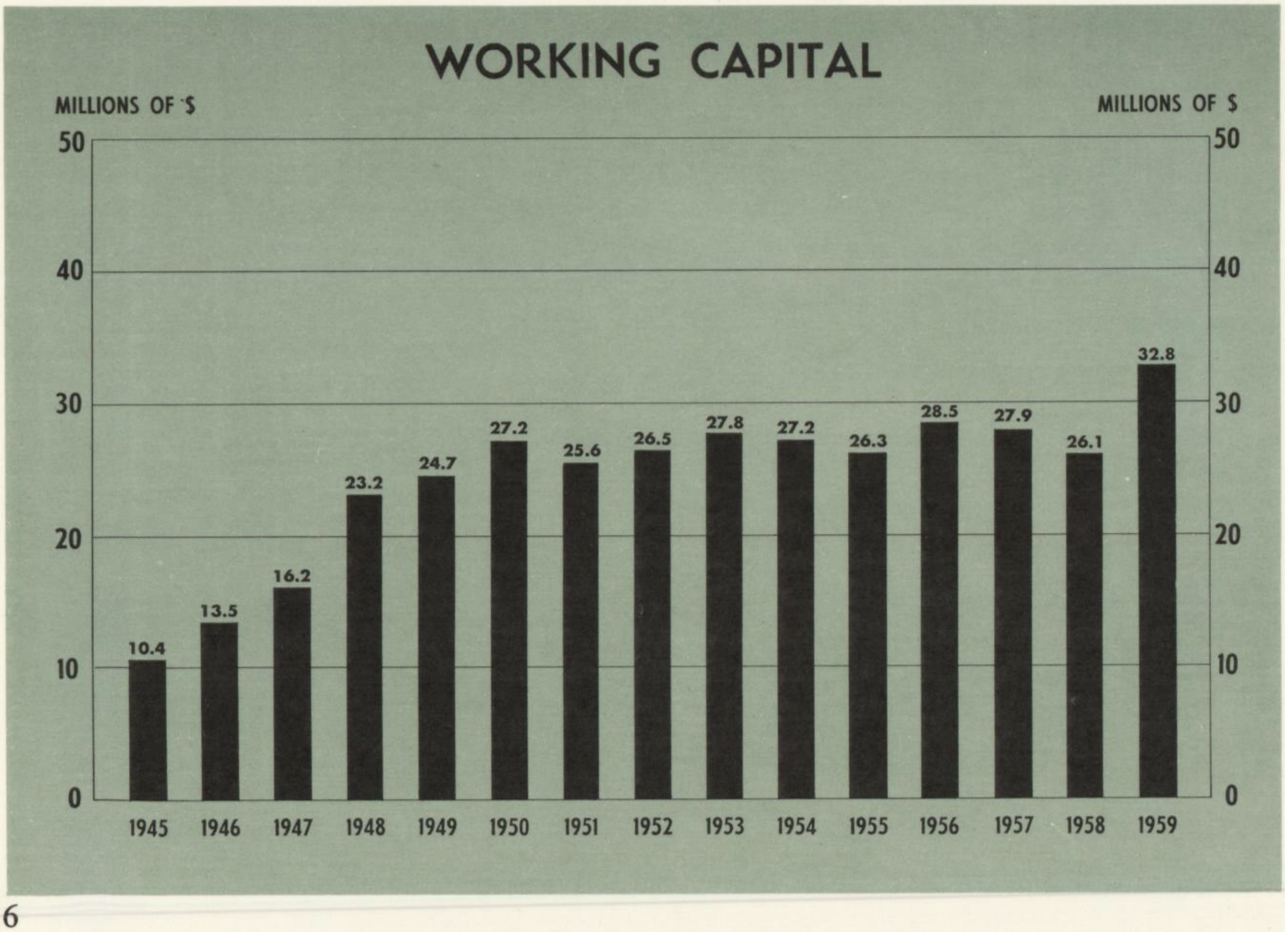
Regarding short term bank loans, the Company did not borrow any money from banks during the year. In the preceding year, $5,500,000 was borrowed from banks on a short term basis (and repaid before end of year).

Lease commitments are of course not the same as debt but are certainly a commitment against a company's resources. Covering all properties where we lease, there are 78 leases which extend for more than 3 years. The minimum annual rentals under these leases aggregate approximately $1,372,000.

Working Capital

Working capital was substantially replenished during the year by the funds from the long term loans (described earlier in this report). The working capital at the end of the year amounted to $32,753,039 compared with $26,076,197 a year ago.

The chart below shows the working capital at the end of each year for the past fifteen years.



Profit Sharing Plan and Pension Plan

The Company's Profit Sharing Plan has been a real factor in strengthening good relationships between our people and the Company. Our people are enthusiastic about it. The Plan has just completed its sixth year. There were 3,169 participants in the Plan on February 1, 1960.

The Plan helps our people to accumulate personal savings. Reduced to its essentials, our people voluntarily contribute up to 6% of their salary, and the Company makes a contribution each year, geared to profits.

During the year, our people contributed a total of $727,040 of their own money into the Plan. (A year ago, the comparable figure was $660,332.) The Company contribution for the year amounted to $325,023, compared with $237,319 a year ago. Each participant's account was credited this year with approximately forty-five cents for every dollar contributed by the individual. (A year ago, the comparable figure was thirty-six cents.)

The investment of the funds in the Profit Sharing Plan is in the hands of a large bank which acts as independent Trustee. The contributions from our people are invested in various conservative investments. The Company contributions are invested in Mercantile Stores stock. During the year, 10,300 shares of our Company's stock was purchased by the Trustee in the open market — with such purchases spaced out over the twelve months of the year. At January 31, 1960, the market value of the funds held by the Trustee was as follows:

From contributions by our people	$3,458,836
From Company contributions —	
(46,476 shares of Mercantile Stores stock and cash of $3,530)	1,554,666
Total	$5,013,502

The Pension Plan of the Company has been in operation for fifteen years. There were 1,763 of our people covered by this Plan at January 31, 1960. A year ago, the number was 1,552. The Company pays the cost of the Pension Plan which amounted to $358,477 compared with $342,102 a year ago. The investment of the funds in the Pension Plan is in the hands of a large bank, acting as the Trustee. The funds, which are conservatively invested, had a total market value of $4,256,333 at January 31, 1960.

Stock Options

Certain stock options were granted in prior years to officers and key people. These options are described in detail in the enclosed Proxy statement. The sixteen remaining options were exercised during the year and no options remained outstanding at January 31, 1960. The changes during the year are summarized as follows:

	Number of Options Outstanding	Number of Shares Covered by Options
At beginning of year	16	9,475
Shares purchased during year under these options		9,475
At end of year	-0-	-0-

Current Sales Trend

This report is being written near the end of March. The current sales trend is a poor one. Sales for February were fairly good with an increase of 6% over February, 1959, but March sales are substantially down. March figures are not completed as this is written, but it appears that March will be something like 10% off, with the dollar drop in sales amounting to about $1,200,000.

Two factors have contributed to this poor March sales picture — a late Easter and bad weather. Easter is three weeks later this year than in 1959. Last year, Easter fell on March 29, and all pre-Easter business was in March. This year, Easter falls on April 17 and April sales will get a sizable part of the pre-Easter business. April sales should be helped to some degree. A series of winter storms has been sweeping the country in March. Many of our stores have reported they have experienced the worst weather on record for forty and fifty years.

How much of the March drop in sales is due to weather and Easter — and how much is due to just poor business, is impossible to determine. The combined sales of March and April will be informative on this point. In any event, management expects the profit for the first quarter ending April 30th, will be below last year. How much below, remains to be seen.

Capital Structure and Cash Throw-Off

The common stockholders own Mercantile Stores. There is no other class of stock. The number of shares outstanding has remained virtually unchanged for a long period of years. No new stock has been issued (except for ten for one split-up in 1945) during the expansion of the Company from around $25,000,000 in sales to about $168,000,000.

The cash throw-off of our Company has been increasing rapidly in recent years. By "cash throw-off" we mean net profit plus depreciation — and plus (in the latest year) the deferred federal income tax relative to "accelerated" depreciation. This deferred tax for the year just closed amounted to $330,000.

To clarify this reference to deferred federal income tax — earlier in this report we explained that the books of the Company reflect "straight-line" depreciation. Our federal income tax returns are filed with "accelerated" depreciation deducted. The result is to cut down the federal income tax payable now, because of the larger "accelerated" depreciation deduction. Our auditors have advised us that generally accepted accounting practice is to set aside this tax reduction in a deferred reserve (and not take it into current income) — on the theory that in some future year, the point will be reached where the depreciation per tax return will be less than per books — and additional taxes will be paid. This deferred tax reserve is set aside to cover that situation. All indications are that in our Company, it will be a considerable number of years into the future, before we reach the point of less depreciation in books than in tax returns.

Below are given the cash throw-off figures for the past six years:

Year Ended	Net Profit	Depreciation	Deferred Income Tax	Total Cash Throw-Off
January 31, 1960	$4,985,000	$2,390,000	$330,000	$7,705,000
January 31, 1959	4,219,000	2,706,000	—	6,925,000
January 31, 1958	3,996,000	2,388,000	—	6,384,000
January 31, 1957	4,027,000	1,973,000	—	6,000,000
January 31, 1956	3,917,000	1,748,000	—	5,665,000
January 31, 1955	3,551,000	1,617,000	—	5,168,000

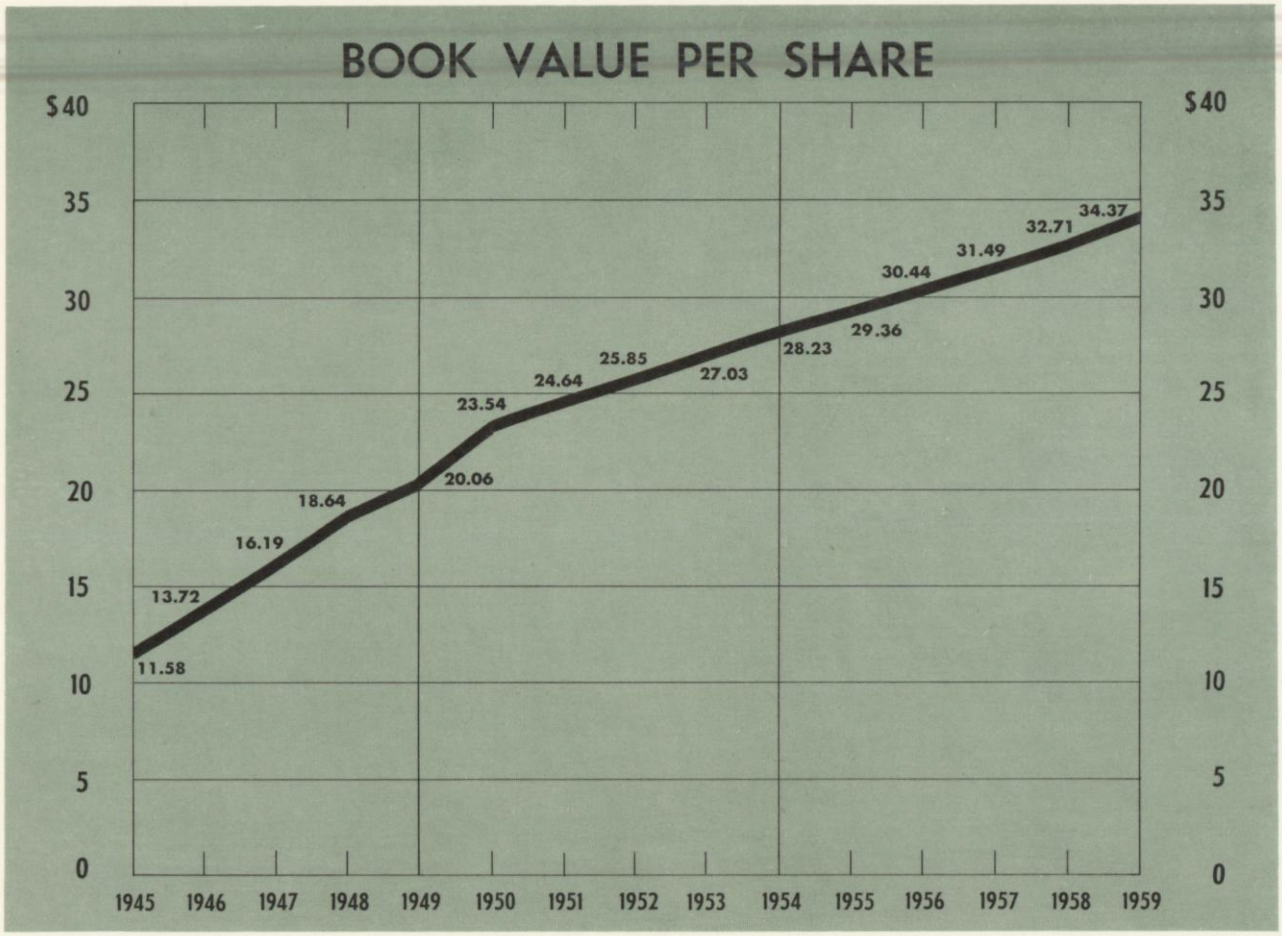
Various

The Company employs in the neighborhood of 7,600 people. During peak periods of the year, that number would be increased to around 10,000, but the smaller figure will approximate the normal number of people in our Company.

The earnings retained for use in the business (earned surplus) amounted to $39,104,251 at the end of the year, after an increase during the year of $2,561,653.

Customers accounts receivable increased about 14% during the year. At the beginning of the year the total amounted to $23,881,201 and by the end of the year that total had increased to $27,249,568 (up by $3,368,367). The Company continued to sell most of its customers' installment contracts to a bank under an arrangement which has been operating for many years. The reserve for doubtful accounts was increased during the year in line with the increase in receivables. At the end of the year, the amount in the reserve was $1,499,945 compared with $1,362,630 a year ago. The reserve continues to be a generous one, in the opinion of management, and the receivables are considered to be in satisfactory condition.

The book value per share of common stock was $34.37 at January 31, 1960, computed on the 1,473,909 shares outstanding at that date. The book value per share has increased each year for the last twenty-one years. The chart below gives the per-share value at the end of each year for the past fifteen years.



The financial statements for the year and the report of our independent auditors are given on the succeeding pages. Following that is a summary of the highlights of our operations for the past twenty-one years together with a ten year comparison of balance sheets.

No dollar value appears in our balance sheet to express the loyalty of the people in the Company, but that asset is one of our most valuable possessions. The management is very appreciative of that loyalty. The Company buys goods from thousands of vendors. We value highly our good relationships with these resources, and extend our thanks to them for their cooperation.

Respectfully submitted,

F. G. KINGSLEY
Chairman of the Board

HAROLD W. JOCKERS
President

ARTHUR ANDERSEN & CO.

67 BROAD STREET
NEW YORK 4

April 1, 1960.

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1960, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1960, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

For the Year Ended January 31, 1960

PROFIT AND LOSS

Net sales, including sales of leased departments		$167,799,529
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $2,389,772 (Note 2)		158,259,056
Operating profit		$ 9,540,473
Other income (net):		
Carrying charges on installment accounts, and miscellaneous net income	$2,278,187	
Less—Interest expense	1,443,230	834,957
Profit before provision for income taxes		$ 10,375,430
Provision for income taxes:		
Federal taxes	$4,910,000	
State and Canadian taxes	480,000	5,390,000
Net profit for the year (Note 2)		$ 4,985,430

CAPITAL SURPLUS

Balance, January 31, 1959	$ 5,986,841
Excess of net proceeds over par value of 9,475 shares of common stock sold during the year under options granted in 1952 at $20.41 per share	158,241
Balance, January 31, 1960	$ 6,145,082

EARNINGS RETAINED FOR USE IN THE BUSINESS (EARNED SURPLUS)

Balance, January 31, 1959	$ 36,542,598
Add:	
Net profit for the year (Note 2)	4,985,430
	$ 41,528,028
Dividends declared on common stock—$1.65 per share	2,423,777
Balance, January 31, 1960 (Note 1)	$ 39,104,251

The notes to the accompanying consolidated balance sheet are an integral part of the above statements.

MERCANTILE STO

(a Delaware

AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:			
Cash			$ 7,424,856
Marketable securities (Canadian and U. S. treasury bills), at cost			357,846
Accounts receivable—			
Customers accounts—			
Regular retail terms		$ 9,953,385	
Installment terms, including installments maturing after one year		1,264,339	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $16,031,844)		4,559,658	
Other accounts		463,595	
		$16,240,977	
Less—Reserve for doubtful accounts		1,499,945	14,741,032
Merchandise inventories, priced at the lower of cost or market			27,429,533
Unexpired insurance, prepaid rent, etc.			1,057,629
TOTAL CURRENT ASSETS			$51,010,896
Fixed Assets, at cost:			
Land		$ 5,909,023	
Buildings owned, buildings on leased ground and leaseholds, and building improvements	$33,251,466		
Less—Reserve for depreciation (Note 2)	10,143,348	23,108,118	
Store fixtures, etc.	$13,989,255		
Less—Reserve for depreciation (Note 2)	6,169,316	7,819,939	36,837,080
			$87,847,976

NOTES:

(1) The loan agreement relating to the 5⅛% notes payable to an insurance company provides for the repayment of $5,000,000 in fifteen annual installments commencing December 1, 1963, with the balance of $2,500,000 due on December 1, 1978.

Under the terms of the insurance company loan agreements, payment of cash dividends after January 31, 1958, is restricted to 70% of the net income (as defined) after that date. As of January 31, 1960, accumulated undistributed earnings of $1,215,000 are free of this restriction.

RES COMPANY, INC.

corporation)

COMPANIES

SHEET – JANUARY 31, 1960

LIABILITIES

Current Liabilities:		
Accounts payable		$ 8,115,512
Accrued taxes (other than Federal income), compensation, rent, etc.		5,448,312
Reserve for Federal income taxes		3,938,127
Current maturities of long-term debt		755,906
TOTAL CURRENT LIABILITIES		$18,257,857
Long-Term Debt:		
Notes payable to an insurance company (Note 1)—		
3⅜% notes, $250,000 due annually	$ 1,750,000	
5⅛% notes	7,500,000	
Mortgage notes payable, due in installments over the life of each mortgage, most of which are twenty-year mortgages	9,356,453	18,606,453
Deferred Federal Income Taxes (Note 2)		330,000
Capital Stock and Surplus:		
Common stock, par value $3.66⅔ per share—		
Authorized and issued 1,475,499 shares	$ 5,410,163	
Less—1,590 shares held in treasury	5,830	
Outstanding 1,473,909 shares	$ 5,404,333	
Capital surplus	6,145,082	
Earnings retained for use in the business (earned surplus) (Note 1)	39,104,251	50,653,666
		$87,847,976

(2) With respect to assets which had been depreciated for both book and tax purposes under accelerated methods, the Company, effective February 1, 1959, reverted to the use of straight-line depreciation for book purposes. The reduction of $330,000 in Federal income taxes currently payable, resulting from the higher depreciation for tax purposes, has been deferred to provide for income taxes payable in future years when book depreciation will exceed the amounts allowable for tax purposes. While the effect that this change in depreciation method had on net profit (after taxes and increases in other charges based on income) cannot be precisely determined, it is estimated that the net profit was increased by approximately $325,000.

MERCANTILE STO

AND SUBSIDIARY

TWENTY-ONE YEAR COMPARISON OF

Fiscal Year Ended January 31	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit	Net Profit Per Common Share (After 10 for 1 Splitup in 1945)
1960	$167,799,529	$10,375,430	$5,390,000	$4,985,430	$3.38
1959	157,915,790	8,709,061	4,490,000	4,219,061	2.88
1958	153,994,341	8,177,638	4,182,000	3,995,638	2.73
1957	148,773,457	8,086,964	4,060,000	4,026,964	2.76
1956	138,785,704	8,036,717	4,120,000	3,916,717	2.70
1955	130,366,021	6,970,553	3,420,000	3,550,553	2.45
1954	130,882,985	6,933,491	3,410,000	3,523,491	2.43
1953	128,603,624	7,080,850	3,620,000	3,460,850	2.39
1952	124,699,947	6,442,260	3,322,000	3,120,260	2.10
1951	125,427,006	9,397,003	4,290,000	5,107,003	3.45
1950	112,607,776	5,932,129	2,325,000	3,607,129	2.42
1949	119,091,512	8,369,725	3,243,000	5,126,725	3.44
1948	113,012,702	8,444,538	3,286,000	5,158,538	3.47
1947	103,007,184	10,800,760	4,618,000	4,682,760	3.14
1946	74,407,149	5,894,901	4,084,000	1,810,901	1.21
1945	59,668,304	6,633,941	4,854,000	1,779,941	1.18
1944	50,277,807	4,700,875	3,276,760	1,424,115	.94
1943	41,173,113	3,340,264	2,118,645	1,221,619	.82
1942	34,867,853	1,912,941	812,165	1,100,776	.73
1941	29,509,394	939,991	278,548	661,443	.43
1940	27,619,565	274,646	72,059	202,587	.11

RES COMPANY, INC.

COMPANIES

SALES, EARNINGS AND RETAINED EARNINGS

DIVIDENDS PAID				
Common				
Per Share	Amount	Preferred Amount	Retained Earnings (Earned Surplus)	Book Value Per Common Share (After 10 for 1 Splitup in 1945)
$1.65	$2,423,777	$ ——	$39,104,251	$34.37
1.65	2,415,029	——	36,542,598	32.71
1.65	2,411,835	——	34,738,566	31.49
1.65	2,402,442	——	31,654,763	30.44
1.55	2,248,742	——	30,030,241	29.36
1.25	1,809,999	——	28,362,266	28.23
1.25	1,809,999	——	26,621,712	27.03
1.25	1,836,849	4,375	24,908,220	25.85
1.00	1,470,404	17,500	22,915,344	24.64
1.00	1,471,295	19,240	21,651,863	23.54
1.00	1,481,220	22,040	18,035,395	20.06
1.00	1,481,220	24,701	15,931,526	18.64
1.00	1,481,220	25,676	12,310,722	16.19
1.00	1,481,220	25,676	8,659,080	13.72
.25	370,305	25,676	5,483,216	11.58
.25	370,305	28,451	4,068,296	10.63
.25	368,930	36,176	2,687,111	9.69
.25	361,255	37,133	1,668,102	9.20
.20	290,444	40,187	844,871	8.58
.20	289,612	41,732	74,726	8.07
—	—	42,504	(255,373)	7.85

MERCANTILE STO

AND SUBSIDIARY

TEN YEAR COMPARISON OF

	January 31,			
ASSETS	*1960*	*1959*	*1958*	*1957*
Cash and Marketable Securities	$ 7,782,702	$ 8,517,822	$ 6,910,994	$ 7,048,251
Receivables, less Reserve	14,741,032	12,985,902	12,491,754	13,302,895
Merchandise Inventories	27,429,533	24,562,675	24,511,645	24,794,615
Prepaid Expenses	1,057,629	1,029,165	1,238,460	990,185
TOTAL CURRENT ASSETS	$51,010,896	$47,095,564	$45,152,853	$46,135,946
Fixed Assets (Net)	36,837,080	36,651,716	33,562,828	29,794,822
	$87,847,976	$83,747,280	$78,715,681	$75,930,768
LIABILITIES				
Current Liabilities	$18,257,857	$21,019,367	$17,206,139	$17,652,613
Long-Term Debt	18,606,453	14,828,883	15,447,820	13,892,909
Deferred Federal Income Taxes	330,000	—	—	—
Deferred Income	—	—	—	—
Capital Stock	5,404,333	5,369,591	5,363,872	5,347,188
Surplus Reserve	—	—	—	1,500,000
Surplus	45,249,333	42,529,439	40,697,850	37,538,058
	$87,847,976	$83,747,280	$78,715,681	$75,930,768
Net Working Capital	$32,753,039	$26,076,197	$27,946,714	$28,483,333

RES COMPANY, INC.

COMPANIES

CONDENSED BALANCE SHEETS

January 31,					
1956	*1955*	*1954*	*1953*	*1952*	*1951*
$ 7,129,398	$ 8,928,401	$ 6,875,318	$ 5,795,896	$ 6,200,137	$ 4,787,324
10,020,053	11,519,124	10,913,772	11,040,474	9,549,452	10,087,958
24,115,864	21,342,757	23,015,160	23,574,168	22,796,904	28,500,036
886,610	1,213,341	1,086,628	1,184,306	1,329,766	1,362,356
$42,151,925	$43,003,623	$41,890,878	$41,594,844	$39,876,259	$44,737,674
21,892,498	18,996,955	17,353,654	17,070,625	16,610,429	13,880,381
$64,044,423	$62,000,578	$59,244,532	$58,665,469	$56,486,688	$58,618,055
$15,837,947	$15,787,889	$14,051,103	$15,046,652	$14,261,602	$17,516,920
5,562,865	4,993,357	5,611,194	5,638,334	5,526,516	5,530,000
—	—	—	—	—	—
—	336,878	440,335	552,075	440,566	576,612
5,326,105	5,309,330	5,309,330	5,309,330	5,660,163	5,660,163
1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
35,817,506	34,073,124	32,332,570	30,619,078	29,097,841	27,834,360
$64,044,423	$62,000,578	$59,244,532	$58,665,469	$56,486,688	$58,618,055
$26,313,978	$27,215,734	$27,839,775	$26,548,192	$25,614,657	$27,220,754